

# [MAN 19] THE IMPACT OF CSR PRACTICES ON SOCIAL SUSTAINABILITY AMONG SMES IN MALAYSIAN MANUFACTURING SECTOR

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## ABSTRACT

*This study aims to determine the impact of Corporate Social Responsibility (CSR) practices on social sustainability among Small and Medium Enterprises (SMEs) in Malaysian Manufacturing Sector. CSR practices are measured through four dimensions namely employee relation, supplier relation, customer relation and community relation. There are two objectives in this study, the first is to identify the level social sustainability and CSR implementation among SMEs in Malaysian manufacturing sector and the second is to investigating the impact of CSR implementation on social sustainability among SMEs in Malaysian manufacturing sector. Applying quantitative approach via questionnaire survey, the primary data in this study were analyzes using Statistical Package for Social Sciences (SPSS) version 22. The result of this study found that CSR practices have a positive significant impact on improving social sustainability among SMEs in manufacturing sector. The findings from survey show that the some of Malaysian SMEs manufacturer have a little knowledge of the concept social sustainability and the implementation of CSR practices still lower. In light of these findings the paper discussed potential roles of Malaysian government, educational institutions and manufacturing associations in addressing the need for greater emphasis on social sustainability among SMEs in Malaysian manufacturing sector.*

**Keywords:** *corporate social responsibility, small and medium enterprises, social sustainability, manufacturing sector*

## INTRODUCTION

The implementation of Corporate Social Responsibility (CSR) have been implemented in several countries including Malaysia. In Malaysia, CSR implemented by corporate organization, non-governmental organization (NGO), Small Medium Enterprise (SMEs) and manufacturing sector. Before that, Generally CSR define as a business approach that giving contribution to sustainable development for all stakeholder by delivering environmental, economic and social benefits. CSR also involves the commitment of companies and corporate organization to social needs including community rights, environment care, welfare workers, and consumer rights.

However, in line with changes in an increasingly competitive era, the impact of globalization and liberalization and deepening social problems stimulated discussion on the implementation of this CSR. CSR activities not only pioneered by large

companies but also practiced by SMEs because they start to get awareness and understanding of their social sustainability.

SMEs are businesses that staff numbers fall below a certain limit. SMEs are also responsible for driving competition and innovation in various economic sectors, namely services, manufacturing, agriculture, construction and mining and quarrying. The definition of SME include 2 sector is manufacturing sector and service sector. In manufacturing sector the SME defined as firms with annual sales turnover not exceeding RM 50 million about RM 25 million or the number of employees does not exceed 200 employees (less than 50 employees).

## **STATEMENT OF THE PROBLEM**

The implementation of CSR had a little attention among SMEs. Due to this problem involves the rate of accident in the workplace has increase. According to the Department of Occupational Safety and Health Malaysia (2012), Statistic Occupational Accidents by sector until December 2014 show manufacturing sector increased compared with other sector in category victims non-permanent disability. This matter is caused by Environmental equipment and work areas that are not suitable and design as well as routine maintenance performed can also contribute to the occurrence of accidents. This problem is compounded because SME workers less educated and skilled to manage in machines is a big constraint for growth and productivity.

Besides that, involvement on CSR practices among SMEs is still lacking. This is because each activity in order to develop their business or organization, resulting in CSR is not popular or less run by SMEs. Meanwhile, the Chief Executive Officer (CEO) said that awareness and promotion of CSR programs is still lacking among company (Borneo Post Online, 2012). This is also SMEs punishment argue that the implementation of CSR increase business cost and only charge companies and unprofitable. SMEs also face the problem of engaging them in socially responsible companies as they face the problem of the cost to implementation of CSR.

The objective of this study are as follows:

1. To identify the level of social sustainability and CSR implementation among SMEs in manufacturing sector.
2. To investigate the impact of CSR implementation on social sustainability among SMEs in manufacturing sector.

The importance of this study can also attract more corporates and SME organizations to involve these companies to carry out their social sustainability. Social sustainability can be exercised by the company's involvement in CSR. In addition, this study also aims to change the perception that some company considers implementation of CSR increase cost in business but implementing CSR can improve their income in business and can improve the performance of the company organization.

The company's responsibility to the public interest can be achieved through the implementation of CSR programs continuously and directly touches aspects of social life in the community. Thereby realizing CSR program, donated by companies indirectly strengthen social capital as a whole.

## **LITERATURE REVIEW**

### **Sustainability**

Sustainability is defined as a process that ensures the development of all aspects of human life. This means it can resolve the conflict between the competing goals, and involves simultaneous efforts for economic prosperity, social justice and environmental quality famously known as profit triples with technological factors (Das, 2009). According to Rosen and Kishawy (2012), sustainability is one of the more important requirements for human activities is a key objective in the development of sustainable human development. At its core, the sustainable development concern of the social, the economy and the environment need to be addressed simultaneously and holistically into the development process.

Based on perception two researches Das (2009) and Rosen and Kishawy (2012) about sustainability, they focus to quality of human life and human activity. They also look at the three components in sustainability namely environmental, social and economic. Sustainability also studied is ability to survive and maintain a process or situation and also used to argue for and against social spending, for and against climate treaties, for and against environmental preservation, and for and against free markets.

### **Social sustainability**

Social sustainability mainly focus on social interaction, including gender discrimination, inequality, diversity, poverty, wages and education vary from one country to another. Some scholars refer to social sustainability as ethical codes of practice and ways to save money (Sharma & Ruud, 2003). Meanwhile, McKenzie (2004) stated that social sustainability happens when formal and informal processes, systems, structures and active relationship that supports the ability of current and future generations to create a healthy society and life. Socially sustainable communities are equitable, diverse, connected and democratic, and provide a good quality of life to the community.

We can conclude that social sustainability focus about standard of living community, education, and quality of human to get a good quality for lifestyle. Besides that social sustainability also considers the entire worldview in relation to communities, culture and globalization. Social sustainability involve aspects like livability, labor and human rights, social responsibility and community development.

### **Corporate social responsibility**

According to the European Commission (2001), CSR is defined as a concept whereby companies integrate social concerns and the environment in their business operations and in their interaction with their stakeholders on a voluntary basis as they are increasingly aware that consciousness responsible behavior leads to success in sustainable business.

In response the increasing pressure from various stakeholders, manufacturing firms need to behave socially responsible when dealing with employees, supplier, customers and local community beyond the legal requirements. Through literature survey, four practices of CSR were identified in this study which are employee relation, supplier relation, customer relation, and community relation. Table 1 presents the operational definitions of all CSR practices.

**Table 1**

Operational definition of CSR practices (adopted from Hami et al., 2016)

CSR Practice	Operational Definition
Employee Relation	The extent to which a firm implements a set of plans/programs to improve employees' well being
Supplier Relation	The extent to which a firm monitors and collaborates with its suppliers to improve suppliers performance
Customer Relation	The extent to which a firm manages its customers to improve customers' well being
Community Relation	The extent to which a firm implements a set of plans/programs to improve communal performance

**CSR and social sustainability**

Effective management of relationships with internal and external stakeholders through CSR practices are beneficial for improving social well-being related to suppliers, customers, local communities and society at large. Analyzing the link between socially responsibility practices and social performance, a number of studies confirmed that the implementation of social and environmental strategies may help firms in building greater social sustainability (e.g. Valiente et al. 2012; Yang, 2013).

Stronger trust-based collaborations with diverse stakeholders would reduce unfavorable social impacts (Torugsa et al., 2012). Recently, a number of firms have implemented various changes on social responsibility and reported significant improvements in performance. Empirical studies employed by several researchers in various research settings and contexts, supported the significant impact of socially responsible practices on creating a sustainable society. For example, Valiente et al. (2012) found that the degree of CSR awareness and stakeholder pressure have positive relationships with corporate social performance. Yang (2013) provides statistical evidence pertaining positive and significant association of social sustainability with sustainable customer management practices and corporate social involvement practices. Supporting similar trend, Kim (2010) found the positive influence of inter-organizational collaboration towards environmental protection on employee satisfaction.

Based on the above discussion, this study propose that CSR practices has significant impact on social sustainability, as stated in the following hypotheses.

- H1 : CSR practices have a positive and significant impact on social sustainability.
- H1(a) : Employee relation have a positive and significant impact on social sustainability.
- H1(b) : Supplier relation have a positive and significant impact on social sustainability.
- H1(c) : Customer relation have a positive and significant impact on social sustainability.
- H1(d) : Community relation have a positive and significant impact on social sustainability

## RESEARCH METHODOLOGY

### Population and sample

The population of this study is SMEs in the manufacturing sector in Malaysia. Unit of analysis is individual manufacturing company in which the data gathered from one respondent represent one different company. About 260 questionnaires were disseminated to the 260 potential respondents by implementing convenience sampling procedure. In order to get valid and exact data, the targeted respondent in this study is personnel who holds top managerial position which is assume to be knowledgeable and relevant with this study. After discarding one survey form for invalid response, the survey yielded 119 usable responses, or 46% response rate effectively.

Receiving responses from various manufacturing industries, majority of firm are from four industries, food and beverage products (21.8%), rubber and plastics products (10.9%), wood and wood products (10.1%) and electrical and electronic products (9.2%). while the remaining are from textile and wearing apparel, fabricated metal products, machinery and equipment, non-metallic mineral products, paper products, leather and relate products, coke and refined petroleum products, printing and reproduction of recorded media, furniture, basic metal, chemical and chemical products and pharmaceutical products. With regard to the size of the firm, more than half of responding firms are small companies (51.3%), 29.4% are micro and 19.3% are medium companies.

In term of the position in the company, respondents in this study consists of CEOs or Directors, production or manufacturing managers, executives and others.

### Measurement and scale

For the purpose of study, the questionnaire has been adapted from Hami et al. (2016). The questionnaire has three sections. The first section relates to the general information of respondent and responding firm while the second and third sections attempt to collect data regarding the level of CSR practices implementation and social sustainability. In measuring CSR practices and social sustainability, the questionnaire in this study use a five point scale to indicate the degree of agreement for each item, with 1 represents strongly disagree and 5 represents strongly agree. In the pretest stage, the initial questionnaire was verified by a group of academicians which experts in the topic studied. Several corrections were made on the questionnaire based on the comments given before conducted the field survey.

Factor analysis was employed in this study to verify the validity of the measures. In order to get uni-dimensionality of each variable, two items of social sustainability and one item of customer relation respectively were deleted, as shown in Table 2. The remaining items of each variable were tested for interim consistency reliability by using Cronbach's alpha coefficient. This test was run to ascertain the consistency of respondents' answers to all the items in a measure. Using the SPSS reliability analysis procedure, an internal consistency analysis was performed separately for the items of each variable. Referring to the results in Table 2, all Cronbach's alpha values are greater than 0.7, indicating high internal consistency and therefore proving the reliabilities of variables.

**Table 2**  
Validation results

Variables	No. of item	Item deleted	KMO	Cronbach's alpha
Social sustainability	10	2	0.836	0.838
Employee relation	5	-	0.746	0.785
Supplier relation	6	-	0.807	0.880
Customer relation	6	1	0.777	0.813
Community relation	6	-	0.818	0.825

Notes: KMO = Kaiser-Meyer-Olkin measure of sampling adequacy; n = 119

### Data analysis technique

The statistical analyses in this study were performed using Statistical Package for Social Science version 22 (SPSS 22). Three main quantitative analysis techniques were used in this study which are descriptive, correlation and multiple regression analyses. Descriptive analysis was conducted in order to fulfil the first objective in this study relating to the implementation of CSR practices and social sustainability among SMEs in manufacturing sector. In order to accomplish the second objective, the Pearson correlation and multiple regression analyses were employed to test the inter correlation between variables studied and the impact of four CSR practices on social sustainability, respectively.

## RESULT AND DISCUSSION

The mean and standard deviation of CSR practices and social sustainability are presented in Table 3.

**Table 3**  
Descriptive results

Variables	Mean	Standard deviation	Minimum	Maximum
Social sustainability	4.2153	0.46684	2.50	5.00
Employee relation	4.0403	0.52438	2.00	5.00
Supplier relation	3.7157	0.68765	1.00	5.00
Customer relation	3.9765	0.58869	2.00	5.00
Community relation	3.7927	0.56497	2.00	5.00

The mean values of 4.0403 and 4.2153 show the slightly good level of implementation of CSR practice related to the employee and slightly good level of social sustainability performance achieved among responding firms. While, the mean values ranging from 3.7157 to 3.9765 indicate the moderate level of implementation of CSR practices related to supplier, customer and community, respectively. The results indicate that Malaysian SMEs manufacturers began to realize corporate social responsibility as critical issues in recent years for long term existence and thriving firms. However, the improvement of the CSR practices is needed especially related to the supplier, community and customer.

Correlation analysis were used to test the bivariate relationship between social sustainability and each of four CSR practices. Table 4 presents the correlation results.

**Table 4**  
Correlation results

		Employee relation	Supplier relation	Customer relation	Community relation
Social Sustainability	Pearson Correlation	.331**	.246**	.399**	.286**
	Sig. (1-tailed)	.000	.003	.000	.001
	N	119	119	119	119

All of the correlation tested in this study found to be positive and significant at the 0.01 level. The results reveal that there is positive and significant relationship between social sustainability and each of four CSR practices namely employee relation ( $r = 0.331$ ,  $p < 0.01$ ), supplier relation ( $r = 0.246$ ,  $p < 0.01$ ), customer relation ( $r = 0.399$ ,  $p < 0.01$ ) and community relation ( $r = 0.286$ ,  $p < 0.01$ ). In short, all of the four CSR practices have strong relationship with social sustainability. Cohen (1988) suggested that correlation value range from  $r = 0.1 - 0.29$  is small strength and  $r = 0.30 - 0.49$  is in medium strength.

The results of multiple regression analysis are presented in Table 5.

**Table 5**  
Regression results

Dependent Variable	Independent Variable	Sig. F	R <sup>2</sup>	Beta	P
<b>Social Sustainability</b>	Employee Relation	0.000	0.214	0.161	0.132
	Supplier Relation			-0.075	0.497
	Customer Relation			0.284	0.009
	Community Relation			0.229	0.020

Based on regression result shown in Table 5, social sustainability is significantly explained by the combination of four practices of CSR (i.e. employee, supplier, customer and community relation) as indicated by the significant F. Therefore hypotheses 1 (H1) is supported.  $R^2$  value of 0.214 indicates that CSR practices explain 21.4% of the variance of social sustainability. While, in-depth investigation of the individual impact of CSR practices on social sustainability found that merely customer relation and community relation are the two practices that significantly improve social sustainability. There is no statistical evidence found to prove the significant impact of employee relation and supplier relation on social sustainability. Therefore, the specific hypotheses of H1(c) and H1 (d) are accepted while H1 (a) and H1 (b) are rejected.

## CONCLUSIONS AND LIMITATIONS

The purpose of this study is to examine the level of implementation of all of the four CSR practices (i.e. employee relation, supplier relation, customer relation and community relation) as well as to determine the relationship between these CSR

practices and social sustainability among SMEs in Malaysian manufacturing sector. In general, the results have shown that there is a moderate to slightly good level of implementation of four CSR practices among responding companies with socially responsible efforts more focus on employee relation while the level of SMEs' achievement on social sustainability is slightly good. Meanwhile, this study manage to prove the significant impact of customer and community relations on social sustainability. Malaysian SMEs need to enhance their efforts to be socially responsible by adopting CSR practices in order to improve social well-being related to employee, customer, supplier, and community. The government and industrial practitioners can use the findings of this study as an important source of information in order to promote the awareness and implementation of CSR particularly among SMEs in manufacturing sector. Considering the limitation of this study which is only used quantitative approach, future research is suggested to conduct qualitative approach to support the result of this study.

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